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The case for monetary reform

London

[1894?]

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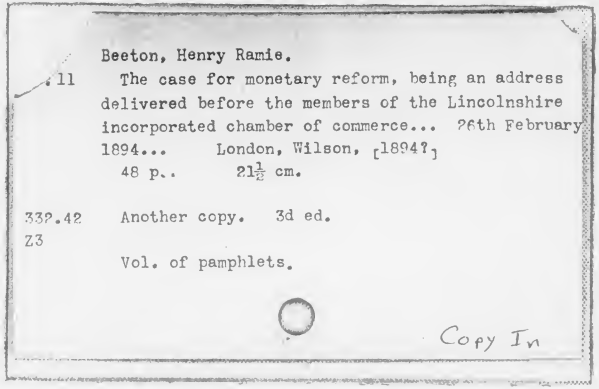

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The Case for Monetary Reform.

HENRY R. BEETON.

Being an Address delivered before the Members of the Lincolnshire Incorporated Chamber of Commerce, at Lincoln, on the 26th February, 1894.

THIRD EDITION.

Price Sixpence.

EFFINGHAM WILSON & Co.,
Royal Exchange, London.

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INTERNATIONAL MONETARY CONFERENCE, Brussels, 1892. Price 2s. 6d. Eyre & Spottiswoode.

PREFACE.

IN this paper I have addressed myself more particularly to the intelligent but uninformed man who, after all, represents the bulk of the jury with whom the decision of political issues ultimately rests. Such a man as a rule, especially if he be fair-minded, instinctively withholds his verdict when it is sought by means of a so-called "practical" argument however true and forcible. Thus approached, he feels that perhaps if he knew all the facts he might find that some had been suppressed; that figures can proverbially be made to prove anything; and he does not care to pronounce judgment on the strength of what may be, for anything he knows to the contrary, an *ex parte* statement of the case.

I seek to shew, what is familiar enough to those who have studied the subject, that what is required of a Standard of Value is that it shall be stable and uniform; and that, inasmuch as in our age Money is in the nature of things international, this can only be effectually secured by international concurrence: but

I do this by reference to first principles which will be self-evident to a thoughtful mind. As the admission of the truth of this proposition is the beginning, so the realisation of its implications is the end, of all knowledge concerning Money. It is not until men see the realities of Money which underlie its appearances, that they know how vital it is to human happiness, and how ignorant the majority of men are in regard to it. The vision transforms the student into the missionary.

6a, AUSTIN FRIARS, LONDON,
February, 1894.

H. R. B.

Make for thyself a definition or description of the thing which is presented to thee, so as to see distinctly what kind of a thing it is, in its substance, in its nudity, in its complete entirety, and tell thyself its proper name, and the names of the things of which it has been compounded, and into which it will be resolved. For nothing is so productive of elevation of mind as to be able to examine methodically and truly every object which is presented to thee in life, and always to look at things so as to see at the same time what kind of universe this is, and what kind of use everything performs in it, and what value everything has with reference to the whole, and what with reference to man; what each thing is, and of what it is composed, and how long it is the nature of this thing to endure. *Marcus Aurelius Antoninus.*

It is one thing to admit the truth of a proposition when it is presented to the mind, and it is quite another thing to be so familiar with it as never to admit anything that is inconsistent with it.

John Stuart Mill.

The Case for
Monetary Reform.

INTRODUCTORY.

IT is with considerable diffidence that I have ventured to comply with the invitation of the Lincolnshire Chamber of Commerce to deliver an address on the Currency Question; not because I have any doubt as to the urgency of the case or as to the validity of the reasoning on which it rests, but because I know how hard it is to do justice to so vast and complex a subject in such limited compass.

Monetary Reform is one of the few political questions which are in their nature scientific. A man, therefore, is entitled to sit on the fence for a long time while he is making up his mind about it; but when he does come down it must be either on the right side or the wrong. We cannot escape from the logic of arithmetic by taking refuge in sentiment; and if some men decide this question differently to others, it is possible to prove that one party is mistaken. The work of Monetary Reformers, therefore, is the spreading of

knowledge rather than merely the influencing of opinion—it is, in short, a work of education.

We say that

> In an age of international trade, Money is necessarily an international institution;

that

> The demonetization of silver by certain nations has falsified the Standard of Value of all nations;

that

> The disruption of the Parity between silver and gold by certain nations has deprived all gold and silver nations of a common money;

and we say, further, that such evils are enormous and avoidable. What meaning these statements convey to our minds depends upon the degree of our previous knowledge: but in any case the things to which they relate concern us very deeply, and they demand, accordingly, our earnest and early examination.

THE INTERNATIONALITY OF MONEY.

The demonetization of silver, or, what is by implication the same thing, the adoption of a gold standard, has become law in a continually increasing number of nations since 1873. This change began in ignorance, and especially in ignorance of its effects, and, once begun, it tended to perpetuate itself. There being only two metals which are fitted for use as standard money —silver and gold—nations which abandon the one must adopt the other, and as considerations of international trade and investment render it convenient for the minority of nations to adopt the monetary system of

the majority, the more nations which adopted gold the more inducement there appeared to be for the remainder to abandon silver.

If gold had been demonetized in 1873 instead of silver and over a similar area, as it might have been and with more reason, the same thing would have happened *mutatis mutandis*—the more nations which adopted silver, the more inducement there would have appeared to be for the remainder to abandon gold. There would, however, have been this difference: that if silver had been preferred to gold in 1873, instead of gold having been preferred to silver, the discoveries of Colorado and Broken Hill would have to some extent compensated the world for the exhaustion of California and Ballarat, and if the French mint had been able in consequence to remain open to the coinage of both metals, we might have been spared in great measure the depression from which we have since been suffering.

For the fact that neither silver or gold can be monopolised by any nation makes money an international institution in the nature of things.

It is nothing less than childish in this age to proceed upon the assumption that any nation settles, or can settle, in any effective degree, its money for itself. It could only do so provided that it produced silver or gold, or both, within its territory, and that it were content to live within a ring fence. Under a system of international trade, the monetary legislation of each nation must affect for better or for worse the monetary system of every nation, and the monetary legislation of every nation ought, therefore, to be determined by the agreement of all nations.

For instance, our monetary system was found to answer its purpose well enough prior to 1873, not because of any inherent excellence of its own, but because it was consistent with the monetary system of the Latin Union, which conferred the benefits of parity between gold and silver—or, in fact, of a common money for international trade—upon us and all other nations. In 1873, however, Germany paid us the impolitic compliment of adopting our monetary system, and ever since it has not only answered our purpose less well because of her so doing, but its extension being deemed inconsistent with the continuance of the monetary system of the Latin Union, the free coinage of gold and silver at a fixed ratio was suspended, and the benefits of parity between the two metals were lost to the world.

It is, therefore, a cardinal truth, in the matter of money, that no nation liveth unto itself, but all are members of one body, and I believe that the adoption of common action for the protection of common interests by the great nations will constitute one of the surest guarantees of peace which the world has ever had. A hundred years ago Mirabeau wrote: "The nations "seem united by the common tie of Money in order "to show that races scattered over the globe can never "cease to be a family of brothers. An honest money "is the sign of all that can be sold; but all that can be "sold is not produced in the same places. In the admir- "able combinations of His system, the author of all "that exists has permitted the seas to separate the "Nations but he has forbidden the seas to disunite "them."

Money, then, is inherently international—whether we will or no. We may, as has been well said, refuse

to have a voice in determining the world's monetary policy, but we cannot avoid being vitally affected by it.

Silver Demonetization—an experiment.

There is no assumption of wisdom in saying that we have once been foolish, and the justification for ascribing the demonetization of silver to ignorance is to be found in the subsequent progress of knowledge. Prior to 1873, all monetary legislation was based upon the assumption that the relative value of silver and gold would remain comparatively stable, and the conditions of the problem as they now present themselves to us did not exist.

There were, however, prophets even in those days, and in 1871 when the demonetization of silver was threatened, one of the few monetary philosophers of that time uttered these memorable words:—

"It is a great mistake to suppose that the adoption "of the gold valuation by other States besides "England will be beneficial. It will only lead to the "destruction of the monetary equilibrium hitherto "existing, and cause a fall in the value of silver, from "which England's trade and the Indian Silver valua- "tion will suffer more than all other interests, grievous "as the general decline of prosperity all over the "world will be.

"The strong doctrinism existing in England as "regards the gold valuation is so blind that, when the "time of depression sets in, there will be this special "feature: the economical authorities of the country "will refuse to listen to the cause here foreshadowed; "every possible attempt will be made to prove that "the decline of commerce is due to all sorts of causes "and irreconcilable matters. The workman and his

" strikes will be the first convenient target; then
" speculation and over-trading will have their turn.
" Later on, when foreign nations, unable to pay in
" silver, have recourse to protection, when a number
" of other secondary causes develop themselves, then
" many would-be wise men will have the opportunity
" of pointing to specific reasons which in their eyes
" account for the falling off in every branch of trade.
" Many other allegations will be made, totally irrele-
" vant to the real issue, but satisfactory to the
" moralising tendency of financial writers. The great
" danger of the time will then be that, among all this
" confusion and strife, England's supremacy in com-
" merce and manufactures may go backwards to an
" extent which cannot be redressed, when the real
" cause becomes recognised, and the natural remedy
" is applied."

If the history of the last twenty years is the fulfilment of the prophecy of Ernest Seyd, it surely behoves us to repair the monetary blunder which he denounced.

NATURE OF THE PREVAILING DEPRESSION.

In addressing an assembly of men of business it is scarcely necessary to adduce facts and figures in support of the assertion that prosperity is not now our portion, or that the commercial depression which for the last twenty years, with short intermission, has prevailed among us has also prevailed more or less among all nations. To be sure, the better organization of labour has maintained nominal wages, notwithstanding the reduced cost of commodities; but the irregularity of employment consequent upon the disturbance of industry by the fall in prices must be taken into

account before the balance of gain or loss can be determined: and on the whole it will probably be conceded that the course of economic progress, the world over, since 1873 would be diagramatically represented by zigzags in a descending direction—by oscillations on a declining line.

At such times mankind is apt to lower unduly its standard of attainment: to assume that it is condemned by the natural order to a condition of constantly recurring misfortune, from which a higher education and greater command over the forces of nature offer no escape. I believe, on the contrary, that it is difficult to exaggerate the measure of good things which is in store for us when we shall know the things which belong to our peace, but which at present are hid from our eyes.

Some, however, still assert, notwithstanding the persistence and universality of the prevailing depression, that it is only temporary, that " we have " gone through this sort of thing before," and that " it will all come right in the end if we only wait long " enough." But, obviously, no man can wait more than a lifetime, and the adversity of one generation is not fairly set off by the prosperity of another. Moreover, history shows that there have been deep and abiding economic depressions which have retarded or reversed the progress of civilization, and an analysis of history discloses the fact that such depressions, under varied manifestations, have been primarily due to one cause. If this be so there is surely ground for alarm when it can be shown that this cause has again manifested itself, and, for the first time, as the direct consequence of human agency. In any case, however, we cannot

feel sure from previous experience that "things will right themselves," for the reason that the monetary conditions of the last twenty years being without precedent we have no experience to guide us.

A little reflection will show us, I think, that while we are groaning under hard times the productive powers of man were never so great and the resources of nature were never more prolific; and, further, that while the depression is universal, *there has been no world-wide change in any element of economic life except Money*. It is this condition of things which calls for an investigation of the nature of Money, and the results yielded by such investigation are found to be adequate to account for the effects observed. The phenomena are complex, because, unfortunately, the world is built that way; but we owe it to ourselves, for the sake of our happiness, that the enquiry should be undertaken by the constituencies whose representatives can amend the law if they find it working us harm.

Now, there is a splendid literature which has been in existence for some time past, covering, in the most effective manner, every aspect—theoretical and practical—of this great and important subject. Yet few read it, and fewer still, as they say in America, "catch "on." And why is it, I ask myself, that hearing they hear not, and seeing they see not? I answer that it is because the effect of the written and spoken word depends, not only upon the word itself, but upon ourselves also, *i.e.* upon the degree to which we are prepared to receive it. It is to those who already have that more is given; and the fact that so few people understand the significance of Money is due in the main, I believe, to the absence of certain root ideas from their

minds. Whenever these ideas come to be implanted in men, they hear with their ears and see with their eyes, and what they hear and what they see—the facts and experiences of life—bring forth fruit abundantly.

It is, then, some of these underlying principles of Money and monetary policy which, with your permission, I propose here to expound; and let me premise by saying that as they are not only *fundamental*, but *related*, it is necessary, so far as time will permit, not only that I should make them as clear as possible in themselves, but that I should make clear their connection.

ANALYSIS OF THE LEVEL OF GENERAL PRICES.

I begin by stating, what is matter of common knowledge, that the level of general prices, or average price, has varied considerably throughout long periods of time. For instance, the level of general prices, or average price, of commodities in the fifteenth century was vastly lower than the level of general prices, or average price, of the same commodities in the nineteenth century. I will explain the cause of this difference later on; but I observe in passing that the lower level of prices of the earlier period, as compared with our own, was obviously not due to superior methods of production, or greater economies in transportation, of which we hear so much now-a-days. For the moment I cite the fact of the variation of the level of general prices, and invite your attention to what is involved in it.

We note, then, that

> The average price of all things may vary while the relative prices of all things remain the same.

For instance, in the series 2, 4, 6, and in the series 20, 40, 60, the average in each case is different (in one

case it is 4, in the other case it is 40), but the relative value of the numbers in each series remains the same. In the same way, the price of one coat may have been the same as that of 2 qrs. of corn, or four sheep, both in the reign of Henry VI. and in the reign of William IV., but the average price of all these things at each period was very different.

We note also the converse proposition, which is equally true and more important for our immediate purpose, that

> The prices of particular things may vary while the average price of all things remains the same.

For instance, in the series 10, 20, 30, and in the series 5, 15, 40, the particular prices in each case are different, but the average price in each case is 20. Under a system of barter, the greater supply of a particular thing constitutes a greater demand for other things, and accordingly more of the particular thing and less of other things need to be offered in order to effect an exchange; and under a system of money, *when the volume of money increases proportionately with the volume of other things*, although the price of the particular thing which is in greater supply falls, and the prices of other things which are in greater demand rise, the average price of all things will remain the same.

WHAT STABILITY IN THE STANDARD OF VALUE IS, AND WHY WE REQUIRE IT.

What is essential to bear in mind is, that

> So long as the level of general prices remains the same, the same amount of money will represent the same amount of things in general, even, although, in consequence of the variations of particular prices, it will represent a greater amount of some things and a less amount of others; and that *so long only as the same amount of money will represent the same amount of things in general, is Stability in the Standard of value preserved.*

In short, Stability of the average Purchasing Power of Money throughout periods of time *is* Stability of the Value of Money.

We see, then, that if the level of general prices, or average price, varies throughout periods of time, whether with or without a concurrent variation of relative prices, a given amount of money will buy more or less of things in general at one time as compared with another according as the level of general prices, or average price, has become lower or higher in the interval.

Now,

> Inasmuch as not only industry, but society itself, rests on an endless series of contracts, either of law or custom, fixed for periods of time, and that such contracts are expressed in terms of money, the level of general prices enters into all contracts by determining what in fact shall be given and received in discharge of them.

Let me make this clear. What is it that the borrower of a certain sum of money *in fact* receives? Is it not the purchasing power which the money gives him over things in general, which he can exercise as he pleases; and it is obviously this same purchasing power which he should restore to the lender to be exercised by him in his turn as he pleases. The

equities of contract require nothing more and nothing less. But if the level of general prices, or average price, is lower or higher when a debt is discharged than when it is incurred, then the repayment of the same sum of money will represent a greater or a less purchasing power, as the case may be, and the creditor will receive more or less than he lent accordingly. As Professor Smart has recently phrased it: "The only "proper repayment of money is a repayment such as "will put the creditor back into the same relative "position to all other commodities as when he lent "the money." It is only in form that *money* is contracted to be paid and received: in fact it is *what represents money and what money represents.* Money is employed by both parties to a contract, not for its own sake, but as a measure of what the one must give, and the other will get; and upon the maintenance of this measure in its integrity depends accordingly the equitable fulfilment of every contract. As Mr. Gladstone said in the House of Commons a year ago: "What you want in the Standard of Value to make "it do its work properly is fixity, steadiness, stability, "and continuity. You want its properties to be such "that what it is to-day it shall be to-morrow, and "what it is to-morrow it shall be the next day."

The fallacy that money is a "Counter."

Hence the fallacy of the argument, that if a rise or fall of prices be general it will not matter; that if our income be less it will make no difference provided our expenditure be proportionately diminished, or if our expenditure be more it will make no difference provided our income be proportionately increased; that money is a mere matter of account; that our wealth is the same however we rate it, and so on. It does not make *no* difference, but, on the contrary, it makes *all*

the difference whether prices in general, *i.e.*, on the average, fall or rise. In the one case creditors must be benefited at the expense of debtors, and in the other debtors must be benefited at the expense of creditors.

Accordingly

> The existence everywhere of time contracts involving fixed money payments renders it imperative, for the sake of equity, to preserve as far as possible the level of general prices, on which the stability of the Standard of Value depends.

Money, therefore, is not the mere counter it appears to the superficial observer. *It is not only a Medium of Exchange, but also a Standard of Value which is employed to record obligations for long periods of time. It* is a measure of valuation which expands when prices contract (*i. e.* when the Standard of Value appreciates) and which contracts when prices expand (*i. e.* when the Standard of Value depreciates).

THE EFFECT OF A RISE IN THE STANDARD OF VALUE.

Moreover, it is important to note that while stability is what we desire in the Standard of Value,

> A variation in the direction of a fall in the level of general prices, which is an enlargement of the measure of valuation, is worse for the community at large than a variation in the direction of a rise in the level of general prices, which is a diminution of the measure of valuation.

As Mr. Arthur Balfour said at the Mansion House the other day: "Stability is the ideal, but if that ideal

" cannot be reached, the worst alternative of all is " that your standard should be an appreciating one."

Let us see why this is so. It might at first sight be inferred that it was as injurious to society for debtors to be benefited at the expense of creditors as for creditors to be benefited at the expense of debtors; but further reflection will shew that the social significance of the one injury is widely different from that of the other. For, although debtors and creditors are not rigidly distinct classes—most active men being both debtors and creditors—yet there is a wide difference between the economic energy of the classes that live mainly by investment and those that live mainly by enterprise. The sum of production depends largely upon the zeal and activity of the productive classes, which depend in their turn upon the encouragement they derive as the reward of their exertions. The evil, therefore, of benefiting debtors at the expense of creditors is nothing like so great as that of benefiting creditors at the expense of debtors. The choice, therefore, if one must be made, should be in favour of maintaining the spirit and confidence of the industrious as against the spirit and confidence of the idle.

A fall in the level of general prices, or an appreciation of the Standard of Value is, in fact, not only inconsistent with commercial prosperity, but is *a necessary cause of commercial depression*. This is really a matter of common experience if we only think of it. Obviously, if everything fell proportionately and simultaneously—obligations as well as other things—then all the items which enter into the cost of production being reduced proportionately and simultaneously

with the price of the product, the producer's balance of profit, although nominally smaller, will by reason of the proportionately greater purchasing power of money be really the same; but it is just because some of the items are "fixed payments," and are not reduced proportionately and simultaneously with the price of the product, that his balance of profit is not nominally, but really, smaller, and may be converted into a loss. In the same way, if everything fell proportionately and simultaneously—liabilities as well as assets—then the producer's capital, although nominally smaller, will, by reason of the proportionately greater purchasing power of money, be really the same; but it is just because liabilities are not reduced proportionately and simultaneously with assets that his capital is not nominally, but really, smaller, and may be altogether extinguished. For the correctness of this accountancy I am sure that the Official Receiver in Bankruptcy will vouch if required.

The fallacy of "cheapness."

Yet, notwithstanding that a fall in the level of general prices inflicts such injury upon society, it is still esteemed a boon by some on the ground of "cheapness." The argument of the superficial observer is, that as all men are consumers and only some men are producers, the greater number are thereby advantaged. With a view to exploding this inveterate fallacy Dr. Giffen wrote in 1888: "The expressions 'dearness' and 'cheapness' " can have really nothing to do with money prices. Real " dearness is a high price in relation to income, and " real cheapness is a low price in relation to income. " Dearness and cheapness in this sense may co-exist " with any conceivable range of money prices, or any " conceivable change in that range. Things may " become cheap in this sense when money prices rise,

" and dear when money prices fall. Much confusion " has arisen from neglect of this distinction." Thus we see that " cheapness " is a *relative* term : it signifies greater purchasing power however induced—whether by higher incomes and stable prices, or by lower prices and stable incomes. The one is a boon and the other is a bane; because while either is equally good for the consumer, the one only is good, and the other is bad, for the producer. The working classes, who are, of course, all producers, and who as a class are now probably as well educated in the economics of industry as any other, are very generally aware of this. They find from experience that a fall in prices is inconsistent with continuity of employment, and we see them now striking against a fall in prices and in order to bring about a rise in prices.

The fact, then, that a fall in the level of general prices confers a benefit upon all creditors at the expense of all debtors, is as demonstrable as that two and two make four; yet it is safe to say that not one man in a hundred on the parliamentary register today is aware of it : and the fact that an appreciation in the Standard of Value is everywhere, and at all times, a necessary cause of commercial depression is equally demonstrable ; yet it is safe at present to say that any one, short of a Cabinet Minister, who says so, is likely to be regarded by four-fifths of his fellowmen as a person of slightly unsound mind.

ILLUSIKATION OF THE EFFECTS OF A RISE IN THE STANDARD OF VALUE.

The majority of men are so familiar with the appearances of Money, while at the same time so ignorant of its realities, that it is necessary to reinforce the reasoning involved in these conclusions by more

particular reference to the effects of an appreciation of the Standard of Value on investment and industry; otherwise, some will be apt to assume that the matter is after all theoretical, and remote, and occasional whereas, on the contrary, it is practical, and immediate, and continuous.

The age in which we live is, as has been truly said, pre-eminently the age of contract. That which distinguishes our society from all previous societies, is it not, on the face of it, the immense capital at its back ? The vast aggregation of wealth which is now devoted to public use and private enterprise, in the form of the splendid national, municipal, and industrial " plants " which yield us such conveniences and economies, would never have been made available to society except on the condition of its repayment by small instalments extending over long periods of time.

Let us consider what is involved in this. If, as the Index Numbers* of gold standard countries shew, the

* The system of Index Numbers is one whereby the variations in the prices of commodities are conveniently determined. According to this method the price of a given unit (whether ounce, yard, gallon, or what not) of a commodity at a given time is taken as 100, and a rise or fall in the price of such unit of such commodity at any other time is expressed by the addition to, or subtraction from, 100, of the necessary percentage. For example, supposing the average price of an ounce of silver in 1873 to have been 60d., and expressing this by the Index Number 100, then if the average price of an ounce of silver in 1893 were 30d. it would be expressed by the Index Number 50. It will be seen that by such means the variations in the prices of each commodity, and the variations in the average price of all commodities, may be readily indicated. Thus the Average Index Number of commodities expresses the level of general prices, and a comparison of the Average Index Numbers of commodities expresses the variations in the level of general prices. Moreover, as the Average price of commodities is the value of gold in terms of commodities in general, the variations in the Average Index Number expresses the variations in the value of gold, *i. e. the degree of instability of the Standard of Value.* Expressing the leve-

level of general prices has fallen about 33 1/3rd per cent. since 1873, then gold has appreciated 50 per cent. in the interval: *i.e.*, the purchasing power of £67 to-day is as great as the purchasing power of £100 was in 1873; or, in other words, 50 per cent. more of commodities in general represents the same amount of money, and 33 1/3rd per cent. less of money represents the same amount of commodities in general, than was the case twenty years ago.

Now the Public Debts of the world contracted in gold, for the most part previous to 1873, probably aggregate not less than five thousand millions of pounds sterling, and the Private Debts of the world contracted in gold, at periods more or less remote from to-day, probably aggregate not less than twenty-five or thirty thousand millions of pounds sterling. These figures, therefore, enable us to form some idea of the unintentional and unmerited redistribution of wealth which is involved in the present repayment of past borrowings, and furnish an intelligible reason for the financial embarrassments of governments, and the commercial embarrassments of individuals, everywhere observable in this year of grace.

To take our own National Debt as an illustration: Mr. Leonard Courtney has calculated that an appreciation in gold of only 10 per cent. would have alone sufficed to counteract all the reduction we have accomplished in the last fifteen years; and Mr. Herbert Gibbs has computed that notwithstanding a nominal reduction of upwards of

of general prices in England for the eleven years 1867-77 (which corresponds with the level of general prices for the twenty-five years 1853-77) as 100, the level of general prices is expressed to-day as 67; in other words, the level of general prices has contracted nearly one-third, and the Standard of Value consequently measures half as much again!

£100,000,000 we have incurred a real addition of uı wards of £100,000,000 since 1873. At the time of the great fall in prices which accompanied the decline of the Roman Empire, we are told that the collection of taxes involved such odium that it was made compulsory, and that in spite of heavy penalties men fled their homes in order to avoid the office. In the scenes recently enacted in Sicily the history of Italy is, therefore, only repeating itself. The social disorder now prevailing in so many countries of Europe is the bitter fruit of the impoverishment of the people, of which the growing and relentless pressure of taxation, aggravated by the stealthy rise in the standard of value, is the fruitful cause.

A doubtful benefit to Creditors.

That the progressive appreciation of money should enable the creditor to exact more than was in contemplation at the time of making his investment would appear, at first sight, to be to his advantage. Yet it is very doubtful whether, on a balance of considerations, it is so. For, in the first place, the security of his investment must be impaired by the diminished solvency of his debtor whose assets have depreciated with relation to his liabilities; and, in the second place, the opportunities for further investment are reduced by the reluctance of borrowers to take loans which involve an increasing and indefinite sacrifice on their part. Thus, year by year, interest is harder to collect, and money is harder to lend. Probably most men like 50 per cent. more than their pound of flesh—if they can get it. But when more than 25 per cent. of the entire railroad mileage of the United States is in the hands of Receivers it is evident that bondholders sometimes go empty away.

The effects of the augmentation of individual and

corporate obligations, which are the foundation of all commercial enterprise, are, of course, the most disastrous of all.

In Agriculture, under stress of continually falling prices, the same rent, by lapse of time, requires a constantly increasing portion of the product. In consequence, the land is starved, cultivation languishes, and if there is a mortgage the farmer often finds himself obliged at its maturity to surrender his property in satisfaction of the incumbrance. In Germany, in France, in America, and England—under free trade or protection—it is everywhere the same.

In Manufactures, employers are always under obligation to make fixed money payments for rents, royalties, salaries and other matters, and from the necessities of business they are obliged to commit themselves every day to contracts for a future time. In such circumstances a continuous fall in prices defeats their calculations by a change of conditions against which they are powerless to contend. The small margin of profit, in the expectation of which all productive industry is undertaken, is subjected to a stealthy and unremitting loss in the necessary interval between purchase and sale; the fund for industrial experiment and the extension of existing branches of production disappears; capital, proverbially timid, withdraws for safer security, and at last the looms stand idle and the furnace fires are damped. By such pitiless process are strong men condemned to idleness, while natural resources remain unexhausted and even undeveloped. Nor does the loss end here. For when, owing to failure of employment, the earnings of the working classes are reduced, their spending power is impaired; the demand for all the commodities which

The fallacy of "over-production."

they are in the habit of consuming falls off, and, such commodities being consequently produced in excess, a further cessation of industry ensues; again there is failure of employment, and with the same effects. Thus "over-production," which is so manifest, is the result of "under-production," which is less manifest, *but which is nevertheless the true cause of bad times.*

In this way the furtive rise in the Standard of Value, by dissipating profits, discouraging enterprise, disorganising industry, and diminishing production, brings poverty and suffering to hundreds of thousands, and straitness of means and diminution of comfort to millions more. As Mr. Arthur Balfour truly said the other day: "The steady appreciation of the Standard "of Value is probably the most deadening and be- "numbing influence which can touch the springs of "enterprise in a nation."

And the moral effect of this condition of things is scarcely less injurious. The growing burden of debt is now so generally felt, and so fully recognised, that novel attempts at readjustment are being made, and a new vocabulary of bankruptcy is coming into vogue. Formerly, failure in business carried with it a presumption of imprudence or incompetence, and commercial decency required at least some interval for rehabilitation; but in Australia lately the banks did not fail in the old-fashioned way, they "closed pending reorganization"; in America, more recently still, the banks did not close at all, but combined to "suspend specie payment"; and the popularity of the word "moratorium," as a refinement in the terminology of repudiation, is evidence of an altered attitude in public opinion.

THE CAUSE OF INSTABILITY IN THE STANDARD OF VALUE.

I pass now from considering the effects, to consider the cause, of a fall in the level of general prices, or average price.

Why is it that the level of general prices, or average price, varies from time to time? Or, in other words, why is it that the normal purchasing power of money is not always preserved, and that the Standard of Value is falsified? The answer is that prices are the expression of the value of other things in terms of money, and that when the supply of other things is in excess of the supply of money, the value of other things will fall with regard to money, and the value of money will rise with regard to other things; in other words, we have to give more of other things for the same money, or less of money for the same amount of other things. Obviously, if there be an increased demand for anything which is in stationary or diminished supply, that thing must become more valuable in terms of other things; or, what is the same thing, other things must become less valuable in terms of it. There is no magic which exempts money, any more than anything else, from the operation of the law of supply and demand. The relative dearth of gold, therefore, due to the natural growth of population and wealth, aggravated by the demonetization of silver and the consequent monetization of gold, involves a fall in the level of general prices, or average price.

The Quantity Law.

This doctrine, which is known in Political Economy as the Quantity Law, may be formulated thus:

> The level of general prices depends, *ceteris paribus*, upon the proportion of the volume of money in currency to the volume of other things requiring to be exchanged for money. In other words, if there is a greater supply of money relatively to the supply of commodities in the market, it will, *ceteris paribus*, be less valuable in terms of them, we shall give more of it, and prices will therefore tend to rise; if, on the other hand, there is a smaller supply of money relatively to the supply of commodities in the market, it will, *ceteris paribus*, be more valuable in terms of them, we shall give less of it, and prices will therefore tend to fall.*

The movements of particular prices.

It must be noted that it is the level of general prices only which is thus determined. When commodities in general increase *relatively to money* and the level of general prices falls in consequence, particular commodities may not increase, and may decrease, relatively to money, and accordingly particular prices may not fall, and may rise; and when commodities in general diminish *relatively to money* and the level of general prices rises in consequence, particular commodities may not diminish, and may increase, relatively to money, and accordingly particular prices may not rise, and may fall. This obvious analysis is necessary in this place for two reasons: (1) because the movements of particular prices are

* It is the operation of the Quantity Law which regulates the territorial distribution of money among the nations of the world. If any nation has more money with reference to its needs than other nations have with reference to their needs, then the level of general prices in that nation will be higher than the level of general prices in other nations; and, as money will always go from where it exchanges for less commodities to where it exchanges for more, it will leave the country where it is relatively redundant in exchange for commodities from countries where they are relatively redundant, until equilibrium has been recovered and the universal level of prices has been restored. Thus, every nation acquires its distributive share of money by the automatic operation of the balance of trade through the agency of prices.

often held to be conclusive of the movement of general prices; and (2) because the movements of particular prices are often held to be due solely to conditions affecting the particular commodities and independent of the increase or diminution in the quantity of money. Men, for instance, are sometimes apt to conclude that if the prices of the particular commodities which they sell have risen, the prices of commodities in general cannot have fallen—they do not see that, with a diminution in the quantity of money, there is more money for *them* when there is less money *all round*; and they are, also, sometimes apt to conclude that if the prices of the particular commodities which they sell have fallen when the prices of commodities in general have fallen, it must be due to their increased supply or reduced demand, and can have nothing to do with the diminution in the quantity of money—they do not see that there is less money for *them* because there is less money *all round*.

Accordingly, we arrive at the conclusion that

> If the equities of contracts are to be preserved —favouring neither the creditor at the expense of the debtor, nor the debtor at the expense of the creditor—and if the pursuit of industry and investment is to be encouraged by the fulfilment of men's reasonable expectations, the supply of money must be always adequate to the demand necessary to preserve the level of general prices; and, as a consequence, other things remaining the same, the volume of money must grow proportionately with the growth of population and wealth.

The effect of the use of credit instruments.

This proposition is not invalidated by the fact that Paper may, under certain circumstances, be substituted

for Cash in making payments, for the reason that all credit instruments themselves depend upon a supply of coin. In any given conditions, therefore, the level of general prices must depend, either directly or indirectly, upon the volume of money.

We see, then, that

> The preservation of the level of general prices depends upon the maintenance of a quantity of money adequate for the purpose; and, further, that *it is the average Index Number of commodities, and not the Rate of Discount, which is the final and conclusive evidence of the sufficiency or otherwise of the quantity of money.*

The average Index Number the measure of stability in the Standard of Value.

When Money is scarce and when abundant.

The supply of money, therefore, is inadequate (and the standard of value appreciates) when the level of general prices falls—this is a condition of Monetary Contraction, even though the volume of money has expanded, if the volume of other things has expanded still more. The supply of money is redundant (and the standard of value depreciates) when the level of general prices rises—this is a condition of Monetary Expansion, even when the volume of money has contracted if the supply of other things has contracted still more. In other words, the value of money being its cost in other things, scarcity of money is evidenced by a lower level of general prices and not by high interest, and abundance of money is evidenced by a higher level of general prices and not by low interest. Money, in fact, is always cheap to borrow when it is dear to buy; for the reason that it is more profitable to lend money than to part with it when its value is increasing, and no man wants to buy

anything which he is likely to have to sell for less immediately afterwards.

There is surely nothing more demonstrably true than this in the whole range of commercial economy, and yet it is safe to say that very few men in Lombard Street believe it, and it is almost safe to say that the majority believe the opposite.

THE EFFECT OF SILVER DEMONETIZATION.

Applying, then, the conclusions at which we have arrived to the monetary condition of the world to-day, we find that since 1873 the level of general prices, as indicated by the Average Index Number of commodities, has fallen heavily, and that during the same time the demonetization of silver by certain nations has been in progressive operation. In other words, we see that there has been, simultaneously, a prodigious rise in the gold standard of value and an immense increase in the area of gold demand. As Mr. Goschen says on this point: "You have a cause which will produce a "certain effect, and you have the effect, and yet people "will be found who deny that the cause has anything "to do with the effect."

It surely needs no elaboration of argument to show that the level of general prices resulting from the proportion between the volume of the world's wealth on the one hand and the volume of *silver and gold* on the other, must be vastly higher than the level of general prices resulting from the proportion between the volume of the world's wealth on the one hand and the volume of *gold only* on the other. It is the transition from the one condition, with its resultant level of general prices, to the other condition, with its resultant

level of general prices, which has been in progress since 1873; and while we may be called upon to put up with the falsification of the Standard of Value when it is due to the niggardliness of Nature, there is no reason why we should do so when it is due to the foolishness of man. Here is the heart of the matter: the inadequacy in the volume of money of which we complain *is not due to the failure of the mines but to the demonetisation of silver*.

Improved methods of production.

If it be said that the fall in the level of general prices since 1873 is due to improved methods of production, the general answer is, that methods of production improved to a much greater extent before 1873, when prices rose, than since 1873, when prices have fallen: but, when we are considering the re-establishment of the monetary condition existing before 1873, the particular answer is, that *prices will only rise so far as their fall is due to that condition having been changed*. Thus, if, as has been said, the fall in the level of general prices has been due *entirely* to improved methods of production there will be no rise in prices, but if it has been due partly to the arbitrary action of governments, there will be a rise in the level of general prices up to the point at which that injustice will be remedied. Whether, therefore, the level of general prices rises or remains stationary no injustice can be done; but if it rises it will show that there was an injustice to remedy, and that it will have been remedied.

If, then, there has been a fall in the level of general prices due to the demonetization of silver, the question which our generation has to decide is how long it is prepared to tolerate the injustice to debtors, and the injury to industry, which has resulted from such tinkering with the currency.

The case of gold standard countries.

Let us consider the facts of the case. Prior to 1873 certain nations used silver as standard money, and certain nations used gold as standard money—in other words, certain nations rated their wealth to silver, and certain nations rated their wealth to gold—but after 1873 some of the nations which had previously used silver as standard money, discarded it in favour of gold. Whereas, therefore, the amount of wealth which had been rated to gold prior to 1873 was that of *the gold group only*, after 1873 it was the wealth of *the gold group plus the wealth of the section of the silver group which had abandoned silver;* in other words, the proportion of the volume of money to the volume of other things in the enlarged gold group was varied by more of other things being rated to the same gold, with the result that gold tended to become more valuable in terms of other things; and this tendency being aggravated by the natural growth of population, prices fell heavily, increasing the burden of all debts, and thereby causing widespread commercial depression.

We see, then, that the action of certain nations in abandoning silver and adopting gold as standard money inevitably prejudiced all other nations which had been using gold as standard money. Gold, in short, was a good enough standard of value among certain nations so long as silver was a standard of value in other nations; but, adequately to perform this function, gold required a sufficient *lateral support* from silver, and when this lateral support was withdrawn, gold failed to sustain the valuations dependent upon it.

The case of silver standard countries.

Moreover, whereas the amount of wealth which had been rated to silver prior to 1873 was that of the *whole of the silver group*, after 1873 it was the wealth

of *the remainder of that group only after the rest had adopted gold;* in other words, the proportion of the volume of money to the volume of other things in the reduced silver group was varied by less of other things being rated to the same silver, with the result that silver tended to become less valuable in terms of other things, but this tendency being counteracted by the natural growth of population and by other causes, prices remained stationary, thereby preserving the equities of contract and permitting industry to enjoy its due reward.

The ultimate effect, therefore, of the legislation of certain nations in abandoning silver and adopting gold, has been to constitute the measure of value of gold standard nations less stable than it would otherwise have been, and to constitute the measure of value of silver standard nations more stable than it would otherwise have been, thereby stimulating the prosperity of silver standard nations at the expense of that of gold standard nations.

We have instances of each of these groups of nations within our own empire. On the one hand, in the United Kingdom, with its gold standard, profits have been reduced, and losses incurred, by the fixity of fixed charges while the prices of all products have fallen, and capital has been reduced, or extinguished, by the shrinkage of assets while liabilities have remained the same or have not shrunk proportionately. On the other hand, in India, with its silver standard, profits and capital have been unimpaired because valuations have been maintained all round, and industry and investment, subsisting under normal conditions, have flourished accordingly. The effect, therefore, of the

refusal of the British Government to assist in the restoration of our standard of value has been to benefit the natives of India at the expense of our own population.

THE EFFECT OF THE LOSS OF PARITY BETWEEN GOLD AND SILVER.

But besides the disastrous alteration of the standard of value, there remains to be considered the disturbance due to the loss of parity between silver and gold, whereby the international trade of gold and silver standard countries has been deprived of a common money and reduced to barter, and their mutual obligations have been unjustly falsified.

Here again let us consider the facts of the case. Prior to 1873 certain nations, as now, used *gold* as standard money, and certain nations, as now, used *silver* as standard money, and certain other nations used *gold and silver* as standard money, which they no longer do. Now, if certain nations use *gold and silver* as standard money, they must, in the nature of the case, decree the equivalence of gold and silver for such purpose, or in other words, they must fix a mint ratio for both metals, and as a necessary consequence *a parity between gold and silver is created the world over*. The effect, therefore, of the legislation of the nations comprising the Latin Union in rating silver to gold prior to 1873, was to confer upon all gold and silver standard nations the benefit of a fixed par of exchange, or common money, in their international trade, and this *without any legislation on their part*.

How advantageous this condition of things was in the international trade of gold and silver standard

countries, while it lasted, may be best appreciated by considering the disturbance which has ensued since it ceased to exist.

Take the case of the United Kingdom and India. Prior to 1873 an exporter in England knew how much gold the silver he realised in India would procure him, and an exporter in India knew how much silver the gold he realised in England would procure him, with the same precision as if the standard had been identical in both countries. Since then, however, foreign legislation by stopping the coinage of gold and silver at a fixed ratio has destroyed the parity between gold and silver, and by thus depriving these two portions of our Empire of the facilities of international money has imported a needless and injurious element of uncertainty into their mutual commerce. Nor is this all. Prior to 1873, before the rupture of the bimetallic tie, the disturbance in the exchange between us and our great dependency was in the nature of an *oscillation*, whereby silver might sometimes be slightly dearer than gold, and gold sometimes slightly dearer than silver, at the French ratio; so that, in the necessary interval between the opening and the close of a shipment, the silver proceeds of the United Kingdom's exports to India might as often yield less as more gold, and the gold proceeds of India exports to the United Kingdom might as often yield less as more silver. Since then, however, the demonetization of silver, and by consequence the monetization of gold, has caused a persistent tendency for gold to appreciate in terms of silver and for silver to depreciate in terms of gold, whereby the disturbance in the exchange between us and our great dependency has been in the nature of a *divergence* tending continually to grow wider; so

that, in the necessary interval between the opening and the close of a shipment, the silver proceeds of the United Kingdom's exports to India have more often yielded less and less gold, and the gold proceeds of India's exports to the United Kingdom have more often yielded more and more silver.

To sum up, therefore: the effects of the legislation of foreign nations upon the international trade of the United Kingdom and India has been (1) to maintain the profits of Indian industry and reduce the profits of English industry, by conditioning the former with relation to its standard of value more favourably than before, and by conditioning the latter with relation to its standard of value less favourably than before; and (2) to introduce an element of uncertainty into their exchange injurious to both, but the disadvantage of which in the case of the commerce of India has been *counteracted* by the tendency for its larger profits to exceed anticipation by the addition of a bonus in remitting, while in the case of the United Kingdom it has been *aggravated* by the tendency for its smaller profits to fall short of anticipation by the subtraction of a discount in remitting. It is no wonder under such circumstances that the cotton industry in Bombay has thrived at the expense of Lancashire, that the jute industry of Calcutta has thrived at the expense of Dundee, and that the Indian wheat trade has thrived at the expense of English farmers.

In the case of investments and loans, the falsification of the mutual obligations of gold and silver standard nations, by the continuous divergence of the exchange, has been most disastrous. Under a monetary system which furnished a stable parity between gold and silver,

it once was, and it would be again, to the advantage of gold standard nations to employ their capital in the development of the natural resources of silver standard countries, and it would be to the advantage of silver standard nations to avail themselves of such aid to their civilization. But, as it is, where silver standard nations have borrowed in gold, the increasing and indefinite augmentation of the weight of debt is becoming unendurable, and where gold standard nations have lent in silver, they must receive back less than was in contemplation at the time of making the investment. In such circumstances the one cannot afford to lend in silver, and the other cannot afford to borrow in gold, and the deadlock thus occasioned is injurious to the interests of both.

To take again the case of the United Kingdom and India. The capital which the British investor placed at the disposal of the Indian Government in gold prior to 1873 involves twice the amount of taxation to-day for its due discharge, with resultant difficulties which if continued constitute a grave political danger; and the vast capital which has been lent by banks and commercial houses in silver prior to 1873 has depreciated to-day by nearly one-half, and has had to be written down accordingly. It is no wonder that British capital no longer flows to India, and that wherever it can be withdrawn it is brought away, to our injury and India's prejudice.

In such a situation, is it not, I ask, a matter of astonishment that the British Government, which is responsible for the monetary system of the Empire, should systematically obstruct the restoration of the par of exchange by the rehabilitation of silver? And

is it not bewildering that, even with India on the verge of bankruptcy, the British Government should seek to patch up its difficulties by the financial expedients of a South American Republic, instead of co-operating with other nations in the adoption of a monetary system than which none, in the words of the Royal Commission of 1888, "appears to apply so complete and "practical a remedy."

SUMMARY. A short summary of such a long argument will suffice in conclusion. We have seen:

(1) That society rests upon a foundation of contracts, either of law or custom, expressed in terms of money;

(2) That money is employed by both parties to a contract, not for its own sake, but on account of its purchasing power over things in general;

(3) That either increase, or decrease, in the purchasing power of money defeats the intention of contracts by doing an injustice to one or other of the individuals contracting; and that, besides this, increase in the purchasing power of money injures society by diminishing the inducement to industry, and so reducing production—which decrease in the purchasing power of money does not.

(4) That the purchasing power of money increases or decreases according as the level of general prices falls or rises;

(5) That the level of general prices falls or rises, *ceteris paribus*, according as the quantity of money relatively to the quantity of other things diminishes or increases; and

(6) That the effect of the independent legislation of some nations in abandoning silver, and adopting gold, as standard money, has been to diminish the quantity of money relatively to the quantity of other things in gold using countries, and to increase the quantity of money relatively to the quantity of other things in silver using countries, whereby, with the growth of population, gold prices have fallen lower than, and silver prices have not fallen so low as, they would otherwise have done—thus falsifying the Standard of Value the world over, and bringing, with the loss of parity between gold and silver, confusion into the international transactions of gold and silver using nations.

These fundamental and related propositions reveal the necessary relation of Money to Prices, and of Prices to Happiness—for without a reasonable measure of social justice and industrial prosperity there can be no contentment. Their sufficient apprehension by those with whom political power lies is the despair of monetary reformers. For there are so many who go about saying that money is important, without knowing how important it is, and there are still more who cannot for the life of them make out what the significance of money is to them. To such we would say, that while a good system of money will not save a fool from the consequences of his folly, or make two blades of grass grow where one grew before, yet it will help to secure to every man the fruit of his labour, and so lighten toil and promote good will among men.

Here then, is the need for re-establishing, on a

broader and more enduring basis, the monetary system which prevailed before the fateful year of 1873—for reinstating silver as standard money on a parity with gold, and so restoring the stability and unity of the world's ancient and accustomed Standard of Value, of which it has been so wrongfully deprived.

And as it is the more civilised nations who have most to gain by the change, so it is upon them that the work of reformation depends, and upon Great Britain most of all. How much longer must we wait before it is accomplished? Month by month, and year by year, population grows, and the volume of money dwindles by comparison with the world's need. Month by month, and year by year, it becomes harder to make money payments, and the reward of industry is subjected to a stealthy and unceasing loss, while, with strange inconsistency, we congratulate ourselves upon the blessing of "cheapness," and deplore the evil of "over-production."

How much longer, I ask, are we to stand by in isolation, while the monetary arrangements of other nations vitiate our contracts and disorganise our business?

Three International Conferences have been held in the last twenty years with the object of concluding an alliance for concurrent legislation which will remedy the evil; and yet nothing has come of them. And why? Because, forsooth, Great Britain shirks her responsibility, and seeks to derive the benefit of such an alliance without incurring its obligations. Great Britain, who has Ireland, on the one hand, struggling against the fixity of judicial rents, and

India, on the other hand, staggering under the weight of the falling rupee! Surely it was we who first made the mistake, and it is we who should be the first to acknowledge it. It will be a stain upon the name and fame of England, who freed the slave, and who has brought so much of conscience into the councils of the nations, if she be backward in doing this world wide deed of mercy and of peace.

H. R. BEETON.

The purchasing power of Money increases when the level of general prices falls.
" " " " diminishes " " " " rises.

The level of general prices falls when the quantity of money *relatively to commodities* diminishes, which is Monetary Contraction.
" " " " rises " " " " increases, which is Monetary Expansion.

The {standard / measure} of {value / valuation} {rises / appreciates / enlarges} when the level of general prices falls, *i.e.*, when the purchasing power of Money increases.

" " " " {falls / depreciates / contracts} " " " " rises, *i.e.*, when the purchasing power of Money diminishes.

APPENDIX.

The following opinions as to the evils of a contracted and contracting currency, and the benefits of a growing supply of International Money are noteworthy.

Tooke and Newmarch, in their *History of Prices*, referring to the effects of the influx of silver into Europe from the New World in the sixteenth century, say :—

"We have the fullest warrant for concluding that any partial inconvenience that might arise from the effect of the American supplies of the sixteenth century in raising prices, was compensated and repaid a hundredfold by the activity, the expansion, and vigour which they impressed for more than one generation upon every enterprise, and every act which dignifies human life, or increases human happiness."

The same authorities in referring to the effects of the increase in the currency following on the gold discoveries in California in 1848, and Australia in 1851, say :—

"The rapid increase in railways in every part of the world; the improvements in the navigation and speed of ships; the rapid spread of population into new and fertile regions; the quick succession of important discoveries in practical science; and the ceaseless activity with which they are applied to increase the efficiency of all mechanical appliances; and perhaps, more powerful than all, the setting free of the enterprise, the industry, and the ingenuity of men of the leading commercial states, by the adoption, more or less completely, of principles of Free Trade, are all causes which, singly and conjointly, have assisted to accelerate the rate of progress; [but with all this,] the influence of the new supplies of gold, year by year, has probably been that particular cause, or train of causes, which has modified in the most powerful degree the economical and commercial history of the last nine years."

Professor J. Shield Nicholson, writing on the same subject, in his work, *Money and Monetary Problems*, says :—

"In the first place, we have seen how the new supplies, in the one case of silver, in the other of gold, gave a real and generous stimulus to the industrial activity of the world. The rise in prices which occurred was not, as we are too often told, merely equivalent to a nominal change of values and a benefit to debtors at the expense of creditors; for as soon as prices began to move in response of the new money, enterprise was quickened, employment extended, and production increased. If in the sixteenth century the trading nations had been afraid of the depreciation of the new silver, and had refused to use it as standard money in unlimited payments, the mediæval system might have retained its immobility for many generations, whilst the only gain to the world would have been a profusion of cheap silver ornaments; and in the nineteenth century, if the nations had listened to the alarmists who urged them to take time by the very tip of the forelock and demonetise their gold before it became worthless through depreciation, America and California would have been left to sheep and cattle, the enormous expansion of trade which took place over the whole world would have been impossible, and the only gain would have been an addition to the stock of gold plate of those who held mortgages in one shape or another over the old industries of the world. But if an increase in the supplies of the precious metals, when freely coined, has the effect which history reveals, surely it does not require much reason or much imagination to discover that, with diminishing supplies of gold, and a refusal to use silver, the contrary effects—in a word, a dragging depression of trade—might be expected."

Professor F. A. Walker, quoting also Professor Cairnes, says :—

"The metallic inflation of the sixteenth and seventeenth centuries put an end to the long life-in-death of the Middle Ages. Perhaps it was the very sharpness of the shock which broke up the lethargy which had settled upon the industrial spirit and the productive powers of Europe, The increase of the money supply contributed greatly to the rise and growth of the maritime power of Great Britain, and in the language of an economist so careful as Professor Cairnes, 'it supplied and rendered possible the remarkable expansion of Oriental trade which forms the most striking commercial fact of the age that followed.'"

And Sir Archibald Alison, in his *History of Europe*, writing in 1852, under the influence of the Californian and Australian gold discoveries, and before their promise had waned or the demonetization of silver was heard of, says :—

"Whoever has studied with attention the structure or tendencies of society, either as they are portrayed in the annals of ancient story, or exist in the complicated relations of men around us, must have become aware, that the greatest evils which in the latter stages of national progress came to afflict mankind, arose from the undue influence and paramount importance of *realised riches*. That the rich in the later stages of national progress are constantly getting richer, and the poor poorer, is a common observation, which has been repeated in every age, from the days of Solon to those of Sir Robert Peel; and many of the greatest changes which have occurred in the world—in particular, the fall of the Roman Empire—may be distinctly traced to the long-continued operation of this pernicious tendency. The greatest benefactors of their species have always been regarded as those who devised and carried into execution some remedy for this great and growing evil; but none of them have proved lasting in their operation, and the frequent renewal of fresh enactments sufficiently proves that those which had preceded them had proved nugatory. It is no wonder that it was so, for the evils complained of arose from the unavoidable result of a stationary currency, co-existing with a rapid increase in the numbers and transactions of mankind; and these were only aggravated by every addition made to the energies and productive powers of society.

"To perceive how this comes about, we have only to reflect, that money, whether in the form of gold, silver, or paper, is a commodity, and an article of commerce; and that, like all similar articles, it varies in value and price with its plenty or cheapness in the market. As certainly and inevitably as a plentiful harvest renders grain cheap, and an abundant vintage wine low-priced, does an increased supply of the currency, whether in specie or paper, render money cheap, as compared with the price of other commodities. But as money is itself the standard by which the value of everything else is measured, and in which its price is paid, this change in its price cannot be seen in any change *in itself*, because it is the standard: it appears in the price of everything else against which it is bartered. If a fixed measure is applied to the figure of a growing man, the change that takes place will appear, not in the dimensions of the measure, but the man. Thus an increase in the currency, when the numbers and transactions are stationary, or nearly so, is immediately followed by a rise in the money price of all other commodities; and a contraction of it is as quickly succeeded by a fall in the money price in all articles of commerce, and the money remuneration of every species of industry. The first change is favourable to the producing classes, whether in land or manufactures, and unfavourable to the holders of realised capital, or fixed annuities; the last augments the real wealth of the monied and wealthy classes, and proportionally depresses the dealers in commodities, and persons engaged in industrial occupations. But if an increase in

the numbers and industry of man co-exists with a diminution in the circulating medium by which their transactions are carried on, the most serious evils await society, and the whole relations of its different classes to each other will be speedily changed; and it is in that state of things that the saying proves true, that the rich are every day growing richer, and the poor poorer.

"The two greatest events that have occurred in the history of mankind have been directly brought about by a contraction and, on the other hand, an expansion of the circulating medium of society. The fall of the Roman Empire, so long ascribed, in ignorance, to slavery, heathenism, and moral corruption, was in reality brought about by a decline in the silver and gold mines of Spain and Greece. And, as if Providence had intended to reveal in the clearest manner the influence of this mighty agent on human affairs, the resurrection of mankind from the ruin which those causes had produced was owing to a directly opposite set of agencies being put in operation. Columbus led the way in the career of renovation; when he spread his sails across the Atlantic, he bore mankind and its fortunes in his barque. The annual supply of the precious metals for the use of the globe was tripled; before a century had expired the prices of every species of produce were quadrupled. The weight of debt and taxes insensibly wore off under the influence of that prodigious increase. In the renovation of industry the relations of society were changed, the weight of feudalism cast off, the rights of man established. Among the many concurring causes which conspired to bring about this mighty consummation, the most important, though hitherto the least observed, was the discovery of Mexico and Peru. If the circulating medium of the globe had remained stationary, or declining, as it was from 1815 to 1849, from the effects of the South American revolution and from English legislation, the necessary result must have been that it would have become altogether inadequate to the wants of man: and not only would industry have been everywhere cramped, but the price of produce would have universally and constantly fallen. Money would have every day become more valuable: all other articles measured in money less so; debt and taxes would have been constantly increasing in weight and oppression. The fate which crushed Rome in ancient, and has all but crushed Great Britain in modern times, would have been that of the whole family of mankind. All these evils have been entirely obviated, and the opposite set of blessings introduced, by the opening of the great treasures of Nature in California and Australia."

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